Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Bill Stoval
Name of the Holding Company Director and Official

CEO / Director
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

Date of Signature 3-15-21

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID
C.I.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2020
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Midland BancShares, Inc.
Legal Title of Holding Company

P.O. Box 3903
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Midland	TX	79702

500 W. Illinois Ave., Midland, TX. 79701
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Brad Bullock	Sr. VP / COO

(432) 262-1627
Area Code / Phone Number / Extension

(432) 262-1544
Area Code / FAX Number

bbullock@cnbtx.com
E-mail Address

N/A
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? (0=No, 1=Yes) 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report [ ]
2. a letter justifying this request has been provided separately ... [ ]

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

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City State Zip Code

Physical Location (if different from mailing address)

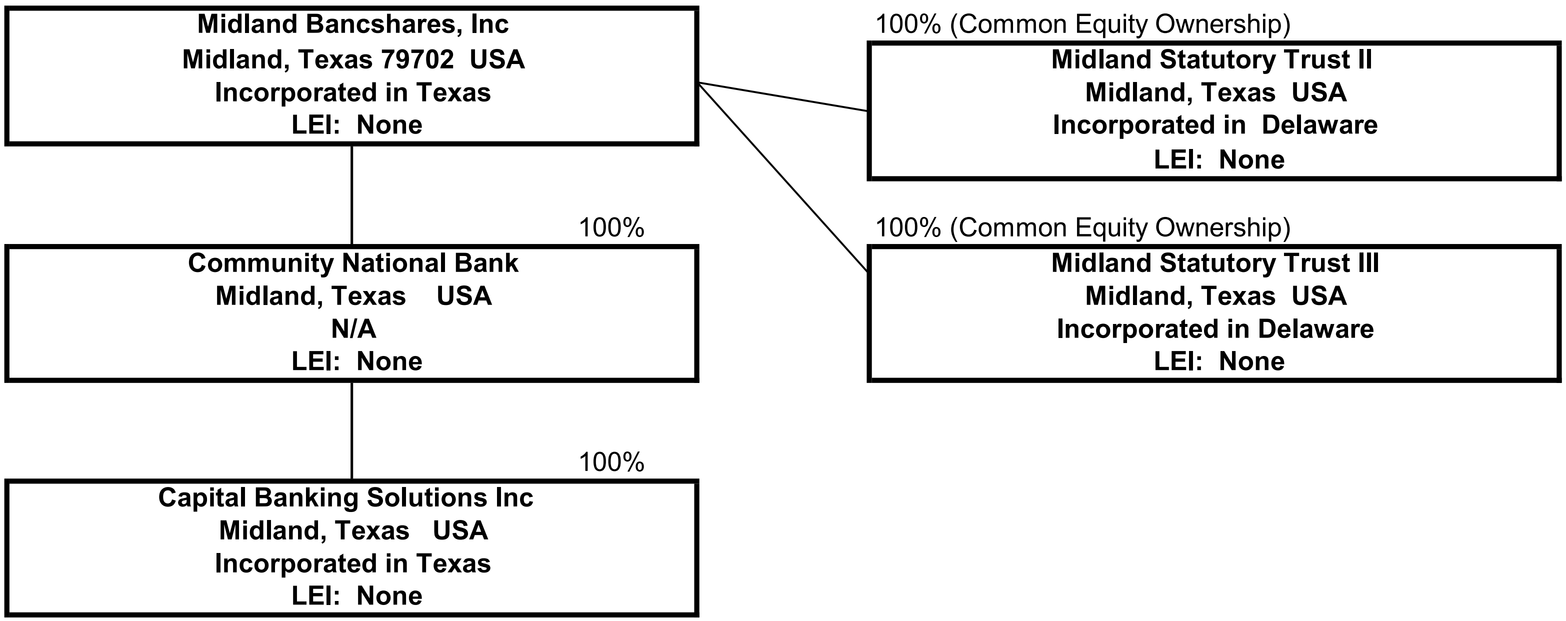
FORM FRY - 6

MIDLAND BANCSHARES, INC
MIDLAND, TEXAS
FISCAL YEAR ENDING 12/31/2020

Report Item:

 # 1. Midland Bancshares, Inc. does prepare an annual report for its shareholders. One copy of the annual report is enclosed. Midland Bancshares, inc. is not registered with the SEC.

 # 2a. Organizational Chart:



#2b. Domestic branch listing provided to the Federal Reserve Bank

Results: A list of branches for your depository institution: COMMUNITY NATIONAL BANK (ID_RSSD: 293053).
This depository institution is held by MIDLAND BANCSHARES, INC. (2868950) of MIDLAND, TX.
The data are as of 12/31/2020. Data reflects information that was received and processed through 01/05/2021.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	293053	COMMUNITY NATIONAL BANK	500 WEST ILLINOIS AVENUE	MIDLAND	TX	79701	MIDLAND	UNITED STATES	Not Required	Not Required	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	5534171	LUBBOCK BRANCH	12509 QUAKER AVENUE	LUBBOCK	TX	79424	LUBBOCK	UNITED STATES	Not Required	Not Required	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	2012052	A. STREET BRANCH	719 WEST LOUISIANA AVENUE	MIDLAND	TX	79701	MIDLAND	UNITED STATES	Not Required	Not Required	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	2260442	CUTHBERT BRANCH	3005 WEST CUTHBERT AVENUE	MIDLAND	TX	79701	MIDLAND	UNITED STATES	Not Required	Not Required	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	506557	EAST FLORIDA BRANCH	601 EAST FLORIDA AVENUE	MIDLAND	TX	79701	MIDLAND	UNITED STATES	Not Required	Not Required	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	3010345	MIDLAND DRIVE BRANCH	1609 NORTH MIDLAND DRIVE	MIDLAND	TX	79703	MIDLAND	UNITED STATES	Not Required	Not Required	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	3651122	PLAZA OAKS BRANCH	2101 WEST WADLEY AVENUE, SUITE 21	MIDLAND	TX	79705	MIDLAND	UNITED STATES	Not Required	Not Required	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	1902763	SAN MIGUEL SQUARE BRANCH	3303 NORTH MIDKIFF ROAD, SUITE 101	MIDLAND	TX	79705	MIDLAND	UNITED STATES	Not Required	Not Required	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	3538362	TREMONT BRANCH	5329 LOOP 250 NORTH	MIDLAND	TX	79707	MIDLAND	UNITED STATES	Not Required	Not Required	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	3884836	EAST ODESSA BRANCH	2659 JOHN BEN SHEPPERD PARKWAY	ODESSA	TX	79761	ECTOR	UNITED STATES	Not Required	Not Required	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	268163	STANTON BRANCH	1211 LAMESA HIGHWAY	STANTON	TX	79782	MARTIN	UNITED STATES	Not Required	Not Required	COMMUNITY NATIONAL BANK	293053	

MIDLAND BANCSHARES, INC
MIDLAND , TEXAS
FISCAL YEAR ENDING 12/31/2020

DIRECTORS AND EXECUTIVE OFFICERS

Report Item:

#3. Securities holders

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12/31/2020

Name and Address (1)(a)	Country of Citizenship (1)(b)	Number of Voting Shares (1)(c)	Percentage of Voting Shares in Holding Company (1) (c)
Jeb B. Hughes Midland, TX USA	USA	83,210	9.3795%

#3-2. Securities holders not listed on 3-1. **N/A**

FORM FRY - 6

MIDLAND BANCSHARES, INC
MIDLAND, TEXAS
FISCAL YEAR ENDING 12/31/2020

DIRECTORS AND EXECUTIVE OFFICERS

Report Item 4: Insiders

Name and Address (1)	Principal **Occupation** if other than with the Bank Holding Company (2)	Title and Position with the Bank Holding Company (3)	Title and Position with Subsidiaries (3)(b)	Title and Position with Other Businesses (3)(c)	Percentage of Voting Shares in Holding Company (4)(a)	Percentage of Voting Shares in Subsidiaries (4)(b)	List Names of other companies (4)(c)
Stan C. Conley	Investor	Director	N/A	Owner - Craig Investment	2.0411%	None	Craig Investment Co. - 100%
Midland, TX USA				LP - AmerimedRx, LP			Amerimed RX, LP - 100%
				Co-Owner - PB Mortgage Group, LLC			Permian Basin Mortgage Group, LLC - 46%
				Owner/Mgr - Conley Family Investments, LLC			Conley Family Investments-80%
Stephen T. Goree	Agri Business Company Owner	Director	N/A	President - STC	4.5821%	None	STC Prpoerties Inc - 90%
Midland, TX USA				Limited Partner - GGB			GGB Leasing LP - 100%
				President - Anchor B&S			Anchor Bolt & Supply Inc - 90%
				President - Goree Cattle			Goree Cattle Co., LLC - 50%
				President - Goree O&G			Goree Oil & Gas LLC - 100%
				President - STG Dev			STG Development - 100%
				President - Sierra Gulf			Sierra Gulf Equip., LLC - 100%
				President - Legado			Legado Investments LLC - 40%
				President-AEGSI Holdings			
				President - Goree L&C			Goree Land & Cattle LLC - 99.50%
				President - Goree Family			Goree Family LP - 99.50%
				President - Goree Mgmt			Goree Management LLC - 49%
				President - Agri			Agri Properties - 100%
				President - Hargor			Hargor LLC - 50%
				President - STG Dev II			STG Development II - 95%
				Member-Collbran Capital Partners			
				Managing Member-Vecino Partners			Vecino Partners - 50%
				Managing Member-Pecos Holdings, LLC			
				Managing Member-SIIG LLC			
James A. Hightower	Real Estate Developer	Director	N/A	General/LP - Loraine at Tx Office Tower	4.9402%	None	Loraine at Texas Office Tower LTD - 90%
Midland, TX USA				Owner/Mgr - MMJC			MMJC Properties LC - 90%
				Owner/Mgr - Hightower Prop			Hightower Properties - 75%
Jeb B. Hughes	Banker	Chairman	N/A	N/A	9.3795%	None	N/A
Midland, TX USA		of The Board					
Patrick M. Moore	Investor	Director	N/A	Owner - 4/Moore Inc	3.2788%	None	4/Moore Inc. - 100%
Midland, TX USA				Owner - MJL			MJL Inc - 100%
				Co-Owner - PBM Inc.			
				Owner - MJLR			MJLR LLC - 100%
				Owner - HTG 100 LLC			HTG 100 LLC - 100%
				Owner - GPAT			GPAT LLC - 100%
John D. Perini	Oil & Gas Co. Executive	Director	N/A	Pres/CEO-John & Charlotte G Yates Legacy LLC	0.0267%	None	N/A
Artesia, NM USA				Director-Valley Bank of Commerce			
				Sole Mem-Perini Investments, LLC			Perini Investments - 100%
				Director-New MX First Financial Inc			
				Sole Mem -La familgia Perini, LLC			La familigia Perini - 100%
Melvin G. Riggs, Jr.	Oil & Gas Co. Executive	Director	N/A	VP/Director-ClayDesta Corp.	1.5005%	None	N/A
Midland, TX USA				Managing Partner- Centerview Partners			
				VP/Director-W&G Development Corp			
				VP/Director-Claydesta Operating, LLC.			
				VP/Director-Clayton Williams Ranch Holdings			
				VP/Director-Clayton Williams Farms Inc			
				VP/Director-Clayton Williams Ranch CO			

				VP/Director-China Hill Inc			
				VP/Director-CLAJON Holding Corp			
				VP/Director-CLAJON Production Corp			
				VP/Director-CWPLCO Inc			
				VP/Director-Destaz Three Development Corp.			
				Manager - CW Stock HoldCo GP LLC			
				Director-Transatlintic Petroleum LTD			
				Director-NexTier Oil Field Solutions, Inc			
				Director-Royale Energy Inc.			
				Manager-LPL/Williams LP, LLC			
				Manager-Latham/Williams 2007, LLC			
Dr. Tulsi Dyal Singh	Retired Physician	Director	N/A	Shareholder - Abacus/Valcom	1.2399%	None	Abacus Computers, Inc. dba Valcom Computers - 31%
Midland, TX USA				Chairman , Board of Directors Renovar Energy Corp.			
				Owner - Amadura			Amadura Corporation - 100%
Bill D. Stovall	Banker	Director and	N/A	N/A	4.6557%	None	N/A
Midland, TX USA		CEO					
Word B. Wilson	Investor	Director	N/A	VP/Director - Wilson Bros. Leasing Co. Inc	3.4852%	None	Wilson Bros. Leasing Co., Inc - 26.60%
Midland, TX USA				President - WB Wilson Investments LP			Word B Wilson Investments - 100%
				Corp President - WB Wilson LLC			Word B Wilson LLC - 100%
				LTD Partner - Wil-Gor			Wil-Gor Energy LTD - 50%
				President - GW Energy			GW Energy Inc - 50%
				VP/Director-Horseshoe Operating, Inc			
				President - Wall St Partners			Wall Street Partners LP - 100%
				President - Wilson Family Caritable Foundation			Wilson Family Charitable Foundation - 100%
				President - Terra Firma Energy LTD			Terra Firma Energy LTD - 80%
				Manager - Basin SWD			Basin SWD LLC - 100%
				VP/Director-Wilson Systems, Inc			
				VP/LTD Patner-Wilson Pecos Ranch, LP			
				VP/Director-Wilson Bros Ranches, LLC			
				VP/Director-WLP Holdings, LP			
				LTD Partner-Wilson Systems SWD 1998-2 LTD			
				LTD Partner-Wilson Systems SWD 1998-1 LTD			
				VP-West Texas Disposal			
				LTD Partner-Pec-Mar LTD Partnership			
				LTD Partner-Reeves County SWD LP			
				Manager - WLP Farms, LLC			
				Manager-Western Midstream LLC			Western Midstream LLC-50%
Dr. Shelton Viney	Surgeon	Director	N/A	Managing Partner-SVMV Capital LLC	0.5072%	None	SVMV LLC-32%
Midland, TX USA				Managing Partner-Viney Children Partnership LTD			
				Managing Partner-SVI-II LP			SVI-II LP-40%
William Doss Rogers	Car Dealer	Director	N/A	Partner-Raider Oil, LLC	0.5351%	None	Raider Oil LLC-25%
Midland, TX USA				President/CEO-Rogers Ford Sales, Inc			Rogers Ford Sales, Inc.-80%
				Partner-American Abstranct LLLP			
				Partner-Regen Partners LLC			
				Partner/Manager-DTS Real Estate LP			DTS Real Estate LP-100%
*****All Shareholders of Midland Bancshares, Inc. are U.S.A. Citizens.							

MIDLAND BANCSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

together with

REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES

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MOSSADAMS

Report of Independent Auditors

To the Board of Directors
Midland Bancshares, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Midland Bancshares, Inc. and Subsidiaries (the Company), which comprise the consolidated statements of financial condition as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Midland Bancshares, Inc. and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Internal Control Over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Midland Bancshares, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2020, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 8, 2021, expressed an unmodified opinion.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidating statements of financial condition, consolidating statements of income, and consolidating statements of cash flows are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Moss Adams LLP

Dallas, Texas
March 8, 2021

MOSSADAMS

Report of Independent Auditors

To the Board of Directors
Midland Bancshares, Inc. and Subsidiaries

Report on Internal Control Over Financial Reporting

We have audited Midland Bancshares, Inc. and Subsidiaries' internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C), as of December 31, 2020, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control Over Financial Reporting (Management Report).

Auditor's Responsibility

Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Midland Bancshares, Inc. and Subsidiaries' internal control over financial reporting included controls over the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9SP).

An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, Midland Bancshares, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the FDICIA.

Report on the Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of Midland Bancshares, Inc. and Subsidiaries and our report dated March 8, 2021, expressed an unmodified opinion.

Restriction on Use

This report is intended solely for the information and use of management, the Board of Directors and others within the organization and the Federal Deposit Insurance Corporation, and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

Dallas, Texas
March 8, 2021

MIDLAND BANCSHARES, INC.

Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control over Financial Reporting
Midland Bancshares, Inc. and Subsidiaries

Statement of Management's Responsibilities

The management of Midland Bancshares, Inc. and Subsidiaries (the Company) is responsible for preparing the Company's annual consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for Parent Company Only Financial Statements for Small Holding companies (Form FRY-9SP), Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions); and for complying with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance With Designated Laws and Regulations

The management of the Company has assessed the Company's compliance with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2020. Based upon its assessment, management has concluded that the Company complied with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2020.

Management's Assessment of Internal Control Over Financial Reporting

The Company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., Parent Company Only Financial Statements for Small Holding companies (Form FRY-9SP) and the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions). The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory purposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management is responsible for establishing and maintaining effective internal control over financial reporting including controls over the preparation of regulatory financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Parent Company Only Financial Statements for Small Holding companies (Form FRY-9SP) and the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions), as of December 31, 2020, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*. Based upon its assessment, management has concluded that, as of December 31, 2020, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Parent Company Only Financial Statements for Small Holding companies (Form FRY-9SP) and the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions), is effective based on the criteria established in *Internal Control – Integrated Framework*.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with Parent Company Only Financial Statements for Small Holding companies (Form FRY-9SP) and the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions), as of December 31, 2020 has been audited by Moss Adams LLP, an independent public accounting firm, as stated in their report dated March 8, 2021.

Jeb B. Hughes
Chairman of the Board
(Midland Bancshares, Inc. and Community National Bank)

William D. Stovall
Chief Executive Officer
(Midland Bancshares, Inc. and Community National Bank)

Ryan Lovell
Executive Vice President and Chief Financial Officer
(Midland Bancshares, Inc. and Community National Bank)

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and due from banks	$ 17,395,122	$ 26,079,828
Interest bearing deposits in banks	134,711,918	276,704,990
Securities available for sale	156,876,119	181,825,549
Loans held for sale	6,512,554	2,484,659
Loans receivable, net of allowance for loan losses of $22,352,931 in 2020 and $16,599,365 in 2019	997,409,026	878,132,304
Accrued interest receivable	4,846,790	4,228,526
Premises and equipment	16,297,492	12,769,837
Foreclosed assets, net	660,300	3,355,892
Goodwill	15,251,182	15,251,182
Cash surrender value of life insurance	30,323,966	29,662,079
Restricted investments held at cost	2,225,915	2,203,415
Deferred tax asset	2,075,560	1,564,581
Other assets	3,303,801	2,080,982
Total assets	$ 1,387,889,745	$ 1,436,343,824
Liabilities		
Noninterest bearing	$ 742,789,351	$ 807,801,700
Interest bearing	477,515,978	461,220,698
Total deposits	1,220,305,329	1,269,022,398
Accrued expenses and other liabilities	7,399,194	4,735,611
Subordinated debentures	9,512,000	9,512,000
Total liabilities	1,237,216,523	1,283,270,009
Commitments and Contingencies (Note 13)		
Shareholders' equity		
Preferred stock, $10 par value; 2,000 shares authorized; all oustanding shares redeemed in 2020, 1,826 shares issued and outstanding in 2019	-	18,260
Common stock, $1 par value; 2,000,000 shares authorized; 888,495 shares issued in 2020 and 2019, 887,151 and 885,686 shares outstanding in 2020 and 2019, respectively	888,495	888,495
Capital surplus	26,660,525	44,635,196
Retained earnings	120,196,974	105,973,921
Treasury stock, at cost	(246,459)	(301,690)
Accumulated other comprehensive income	3,173,687	1,859,633
Total shareholders' equity	150,673,222	153,073,815
Total liabilities and shareholders' equity	$ 1,387,889,745	$ 1,436,343,824

The accompanying notes are an integral part of these consolidated financial statements.

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years Ended December 31, 2020 and 2019

	2020	2019
Interest income		
Loans, including fees	$ 49,748,135	$ 48,283,205
Debt securities		
Taxable	3,630,230	4,014,481
Tax exempt	51,301	99,659
Interest bearing deposits in banks	1,441,445	6,925,373
Total interest income	54,871,111	59,322,718
Interest expense		
Deposits	1,122,437	1,363,772
Subordinated debentures and other borrowings	248,848	402,745
Total interest expense	1,371,285	1,766,517
Net interest income	53,499,826	57,556,201
Provision for loan losses	6,209,000	3,310,000
Net interest income after provision for loan losses	47,290,826	54,246,201
Noninterest income		
Service charges on deposit accounts	689,615	777,777
Sweep account income	397,744	2,552,242
Real estate mortgage fees	2,320,644	1,590,253
Debit card income	1,366,505	1,216,504
Gain on sale of loans	382,500	-
Gain on sale of securities	1,417,288	-
Net appreciation on cash surrender value of life insurance	661,887	627,257
Other income	624,672	750,729
Total noninterest income	7,860,855	7,514,762

The accompanying notes are an integral part of these consolidated financial statements.

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Income - continued

Years Ended December 31, 2020 and 2019

	2020	2019
Noninterest expense		
Salaries and employee benefits	21,009,027	19,586,599
Occupancy and equipment expense	5,007,753	3,675,235
IT and data processing	1,559,855	1,641,533
Loan expense	368,486	308,018
FDIC assessments	370,007	446,820
Director compensation	1,088,000	752,750
Loss on sale of and writedown on foreclosed assets	597,227	177,104
Other expense	4,280,131	3,984,232
Total noninterest expense	34,280,486	30,572,291
Income before income taxes	20,871,195	31,188,672
Income tax expense	4,357,111	6,503,802
Net income	$ 16,514,084	$ 24,684,870

The accompanying notes are an integral part of these consolidated financial statements.

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2020 and 2019

	2020	2019
Net Income	$ 16,514,084	$ 24,684,870
Other comprehensive income		
Change in unrealized appreciation on investment securities available for sale, before tax	1,663,359	3,805,743
Income tax expense related to unrealized gain	(349,305)	(799,206)
Total other comprehensive income	1,314,054	3,006,537
Comprehensive income	$ 17,828,138	$ 27,691,407

The accompanying notes are an integral part of these consolidated financial statements.

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2020 and 2019

	Preferred Stock	Common Stock
Balance at December 31, 2018	$ 18,260	$ 888,495
Net income	-	-
Other comprehensive income	-	-
Sale of treasury stock	-	-
Purchase of treasury stock	-	-
Dividends paid	-	-
Balance at December 31, 2019	18,260	888,495
Net income	-	-
Other comprehensive income	-	-
Sale of treasury stock	-	-
Redemption of preferred stock	(18,260)	-
Dividends paid	-	-
Balance at December 31, 2020	$ -	$ 888,495

The accompanying notes are an integral part of these consolidated financial statements.

Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
$ 44,396,565	$ 84,858,640	$ (114,759)	$ (1,146,904)	$ 128,900,297
-	24,684,870	-	-	24,684,870
-	-	-	3,006,537	3,006,537
238,631	-	49,349	-	287,980
-	-	(236,280)	-	(236,280)
-	(3,569,589)	-	-	(3,569,589)
44,635,196	105,973,921	(301,690)	1,859,633	153,073,815
-	16,514,084	-	-	16,514,084
-	-	-	1,314,054	1,314,054
267,069	-	55,231	-	322,300
(18,241,740)	-	-	-	(18,260,000)
-	(2,291,031)	-	-	(2,291,031)
$ 26,660,525	$ 120,196,974	$ (246,459)	$ 3,173,687	$ 150,673,222

The accompanying notes are an integral part of these consolidated financial statements.

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net income	$ 16,514,084	$ 24,684,870
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Provision for loan losses	6,209,000	3,310,000
Net amortization of securities	784,922	371,374
Depreciation	1,218,881	1,051,303
Net realized gain on sales of available for		
sales securities	(1,417,288)	-
Net realized gain on sale of loans	(382,500)	-
Appreciation in cash surrender value of life insurance	(661,887)	(627,257)
Loss on sale of and writedown on foreclosed assets	597,227	177,104
Gain on sale of premises and equipment	(23,542)	-
Deferred income tax	(860,284)	(680,955)
Net change in:		
Loans held for sale	(4,027,895)	(489,258)
Accrued interest receivable	(618,264)	(91,221)
Other assets	(493,261)	(434,635)
Accrued expenses and other liabilities	2,663,583	1,068,488
Net cash provided by operating activities	19,502,776	28,339,813
Cash flows from investing activities		
Net change in interest bearing deposits in banks	141,993,072	12,196,623
Activity in available for sale securities:		
Sales	69,633,369	-
Maturities, prepayments and calls	168,063,198	172,751,996
Purchases	(210,451,412)	(189,805,700)
Purchase of life insurance policies	-	(1,752,132)
Net change in restricted investments held at cost	(22,500)	-
Proceeds from sale of foreclosed assets	2,910,800	165,820
Proceeds from sale of premises and equipment	43,388	-
Loan originations and principal collections, net	(125,688,713)	(78,877,360)
Additions to premises and equipment	(5,495,940)	(4,560,397)
Improvements to foreclosed assets	(226,944)	-
Net cash provided by (used in) investing activities	40,758,318	(89,881,150)

The accompanying notes are an integral part of these consolidated financial statements.

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows - continued
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from financing activities		
Net change in deposits	(48,717,069)	58,934,518
Proceeds from line of credit advances	750,000	-
Repayments on line of credit advances	(750,000)	-
Purchase of treasury stock	-	(236,280)
Redemption of preferred stock	(18,260,000)	-
Proceeds from sale of treasury stock	322,300	287,980
Dividends paid	(2,291,031)	(3,569,589)
Net cash provided by (used in) financing activities	(68,945,800)	55,416,629
Net change in cash and cash equivalents	(8,684,706)	(6,124,708)
Cash and cash equivalents at beginning of year	26,079,828	32,204,536
Cash and cash equivalents at end of year	$ 17,395,122	$ 26,079,828

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1: Summary of Significant Accounting Policies

Nature of Operations

Midland Bancshares, Inc. (the Company) and its subsidiary, Community National Bank (the Bank), provide loans and banking services to consumers and commercial customers in Midland, Odessa, Dallas, and Lubbock, Texas, and the surrounding areas. Capital Banking Solutions, Inc. (CBS) was formed on September 18, 2014 as a subsidiary of the Bank to provide consulting services to other banks. The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles and to general practices of the banking industry. Policies and practices which materially affect the determination of financial position, results of operations and cash flows are summarized as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and fair value of financial instruments.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Midland, Odessa, Dallas, and Lubbock, Texas and the surrounding areas. The Company does not have any significant concentrations to any one industry or customer, other than the oil and gas industry that is prevalent in Midland and the surrounding areas.

The Company carries certain assets with other financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. At December 31, 2020 and 2019, the deposits, as reported by the banks, were $44,269,989 and $86,446,180, respectively. Management monitors the financial stability of correspondent banks and considers amounts advanced in excess of FDIC insurance limits to present no significant additional risk to the Company.

Additionally, the Company is a member of an interfinancial network of institutions that provides FDIC deposit placement services for member institutions. At December 31, 2020 and 2019, the Company's assets included $0 and $140,670,042, respectively in interest bearing deposits under the network.

NOTE 1: Summary of Significant Accounting Policies – continued

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold and securities purchased under agreements to resell, all of which mature within ninety days.

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. The Company's requirement was $0 as of December 31, 2020 and 2019.

Interest Bearing Deposits in Banks

Interest bearing deposits in banks are carried at cost and have an original maturity of less than 90 days. Interest bearing deposits that mature in more than one year pay interest monthly or quarterly and the interest income is recorded as earned.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. At December 31, 2020 and 2019, the Company had no held to maturity investments.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are recognized in earnings as realized losses.

In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted Investments

Restricted investments are carried at the lower of cost or estimated fair value. Any changes to the cost basis of these investments are recorded in the consolidated statements of income. These investments are reviewed annually to determine if an impairment charge is necessary. As of December 31, 2020 and 2019, no impairment charges were recorded.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or market. Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon the sale of the loan.

NOTE 1: Summary of Significant Accounting Policies – continued

Loans

The Company grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout the Midland County area. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff which are measured at historical cost are generally reported at their outstanding unpaid principal balances, net of any unearned income, charge-offs, and unamortized deferred fees and costs on originated loans. Interest income is accrued on the unpaid principal balance. Under U.S. generally accepted accounting principles, loan origination fees and certain direct origination costs are deferred and recognized as adjustments to interest income over the lives of the related loans. Management believes not deferring such fees and costs and amortizing them over the life of the related loan does not materially affect the Company's financial position or results of operations. Unearned income is amortized to interest income using a level yield methodology.

The Company makes disclosures of loans and other financing receivables and the related allowance in accordance with ASC Topic 310, *Receivables*. The accounting guidance defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses, and a class of financing receivables as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics, and methods for assessing risk. The Company's portfolio segments are Real Estate, Construction, Energy, Consumer, and Commercial. The classes of financing receivables within the Real Estate segment are 1-4 Residential and Commercial real estate. The remaining portfolio segments contain a single class of financing receivables. Under this accounting guidance, the allowance is presented by portfolio segment.

Participation in Small Business Administration Paycheck Protection Program Loans

Pursuant to the CARES Act passed in March 2020, the Company funded loans to eligible small businesses and non-profit organizations who participated in the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). PPP loans have terms of two to five years and earn interest at 1%. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program.

The Company processed over 890 loans and funded approximately $122,445,000 during the year. The Company received fees totaling $4,152,873. In addition, the Bank received a fee of 1%-5% from the SBA depending on the loan amount, which was netted with loan origination costs and amortized into interest income under the effective yield method over 12 months, which is the expected life of the loans. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. These fees have been deferred and are being amortized. At December 31, 2020, the Company had $96,145,325 in outstanding PPP loans and $873,863 in unrecognized deferred loan fees on PPP loans.

NOTE 1: Summary of Significant Accounting Policies – continued

Financed – Accounts Receivable

The Company purchases invoices from its accounts receivable financing clients in schedules or batches. Cash is advanced to the client to the extent of the applicable advance rate, less fees, as set forth in receivable financing agreements. The face value of the invoices purchased are recorded by the Company as Capital Advantage loan balances, and the unadvanced portions of the invoices purchased, less fees, are considered client reserves. The client reserves are held to settle any payment disputes or collection shortfalls, may be used to pay clients' obligations to various third parties as directed by the client, are periodically released to or withdrawn by clients, and are reported as deposits. Any invoice that exceeds 90 days in age without being paid are charged back to the client reserves. Fees collected from the purchase of receivables are recognized in interest income.

Allowance for Loan Losses

The allowance for credit losses, which includes the allowance for loan losses and the reserve for unfunded lending commitments, represents management's estimate of probable losses inherent in the Company's lending activities. The allowance for loan losses does not include amounts related to accrued interest receivable as accrued interest receivable is reversed when a loan is placed on nonaccrual status.

The allowance for loan losses represents the estimated probable credit losses in funded consumer and commercial loans while the reserve for unfunded lending commitments, including standby letters of credit and binding unfunded loan commitments, represents estimated probable credit losses on these unfunded credit instruments based on utilization assumptions. Credit exposures deemed to be uncollectible are charged against these accounts. Cash recovered on previously charged off amounts is recorded as a recovery to these accounts.

Management evaluates the adequacy of the allowance for loan losses based on the combined total of these two components. The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and assess the overall collectability of those portfolios. The allowance on certain homogenous loan portfolios is based on aggregated portfolio segment evaluations.

Loss forecast models are utilized for these portfolios which consider a variety of factors including, but not limited to, historical loss experience, estimated defaults or foreclosures based on portfolio trends, delinquencies, bankruptcies, economic conditions and credit scores.

The Company's real estate portfolio segment is comprised primarily of homogenous loans secured by residential and commercial real estate. The amount of losses incurred in the homogenous loan pools is estimated based upon how many of the loans will default and the loss in the event of default. Using modeling methodologies, the Company estimates how many of the homogenous loans will default based on the individual loans' attributes aggregated into pools of homogenous loans with similar attributes. The attributes that are most significant to the probability of default and are used to estimate default include the loan-to-value, borrower credit score, months since origination, geography, and present collection status. The estimate is based on the Company's historical experience with the loan portfolio. The estimate is adjusted to reflect an assessment of environmental factors that are not reflected in the historical data, such as changes in real estate values, local and national economies, underwriting standards and the regulatory environment.

NOTE 1: Summary of Significant Accounting Policies – continued

Allowance for Loan Losses – continued

The allowance on the remaining portfolio segments (Construction, Energy, Consumer, and Commercial) are calculated using loss rates delineated by risk rating and product type. Factors considered when assessing loss rates include the value of the underlying collateral, the industry of the obligor, the obligor's liquidity and other financial and qualitative factors. These statistical models are updated regularly for changes in economic and business conditions. Included in the analysis of these loan portfolios are reserves which are maintained to cover uncertainties that affect the Company's estimate of probable losses including economic uncertainty and large single defaults.

Nonperforming loans are reviewed in accordance with applicable accounting guidance on impaired loans and troubled debt restructurings (TDRs). If necessary, a specific allowance is established for these loans if they are deemed to be impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of delay, the reason for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan.

The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are subject of a restructuring agreement.

In addition to the allowance for loan losses, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, utilization assumptions, current economic conditions, performance trends within the portfolio, and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments.

The allowance for credit losses related to the loan portfolio is reported as a part of loans in the consolidated statements of financial condition whereas the reserve for unfunded lending commitments is reported on the consolidated statements of financial condition in accrued expenses and other liabilities. Provision for credit losses related to the loan portfolio and unfunded lending commitments is reported separately in the consolidated statements of income.

NOTE 1: Summary of Significant Accounting Policies – continued

Nonperforming Loans, Charge-Offs, and Delinquencies

Nonperforming loans generally include loans that have been placed on nonaccrual status including nonaccrual loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties.

The entire balance of a loan is contractually delinquent if the minimum payment is not received by the specified due date on the customer's billing statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

The outstanding balance of real estate secured loans, including all classes of financing receivables within the real estate portfolio segment, that is in excess of the estimated property value, less estimated costs to sell, is charged off no later than the end of the month in which the account becomes 180 days past due. The estimated property value, less costs to sell, is determined utilizing appraisals or broker price opinions of the fair value of the collateral. The outstanding balance of loans within the remaining loan segments (Construction, Energy, Consumer, and Commercial) are charged off no later than the end of the month in which the account becomes 120 days past due. For secured loans, accounts are written down to the collateral value.

The fair value of the collateral is estimated by management based on current financial information, inspections, and appraisals. For unsecured loans, the outstanding balance is written off.

Loans within all portfolio segments are generally placed on nonaccrual status and classified as nonperforming at 90 days past due. Accrued interest receivable is reversed when a loan is placed on nonaccrual status. Interest collections on nonaccruing loans for which the ultimate collectability of principal is uncertain are applied as principal reductions; otherwise, such collections are credited to interest income when received. These loans may be restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection.

Loans whose contractual terms have been modified in a TDR and are current at the time of the restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and repayment in full under the restructured terms is expected. Otherwise, the loans are placed on nonaccrual status and reported as nonperforming until there is sustained repayment performance for a reasonable period, generally six months. TDRs that are on accrual status are reported as performing TDRs; however, the loan will continue to be reported as an impaired loan until paid in full. In addition, if accruing TDRs bear less than a market rate of interest at the time of modification, they are reported as performing TDRs throughout the remaining lives of the loans.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

NOTE 1: Summary of Significant Accounting Policies – continued

Nonperforming Loans, Charge-Offs, and Delinquencies – continued

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revisions as more information becomes available.

Troubled Debt Restructured Loans

A troubled debt restructured loan is a loan which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are not limited to a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals, and rewrites. A troubled debt restructured loan would generally be considered impaired in the year of modification and will be considered impaired for the remainder of the loan until paid in full.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law to address the impact of the COVID-19 pandemic. Section 4013 of the CARES Act provided optional, temporary relief from evaluating loans that may have been considered TDRs under U.S. generally accepted accounting principles. During 2020, the Company began offering short-term loan modifications to assist borrowers during the COVID-19 pandemic. The Company elected to apply these temporary accounting provisions to payment relief loans beginning in March 2020. These modifications generally involve principal and/or interest payment deferrals for up to six months to borrowers who were current prior to any relief. These modifications met the criteria of Section 4013 and the joint regulatory interagency revised statement issued in April 2020, and therefore, the Company does not account for such loan modifications as TDRs.

Off-Balance Sheet Commitments

In the ordinary course of business, the Company has entered into commitments to extend credit, including standby letters of credit. Such financial instruments are recorded when they are funded.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter.

Premises and Equipment Held for Sale

The Company relocated its headquarters to a new location during the year, at which time it also vacated its prior headquarters building on Texas Avenue in Midland. The Board of Directors approved the plan to sell the Texas location and a real estate broker was engaged to sell the property. As of December 31, 2020, the property is carried at the lower of cost or market value and is reported in the consolidated statements of financial condition.

NOTE 1: Summary of Significant Accounting Policies – continued

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value, less estimated cost to sell at the date of foreclosure. All write-downs based on the asset's fair value at the date of foreclosure are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value, less cost to sell and depreciation is not recorded.

Impairment losses on property to be held and used are measured at the amount by which the carrying amount of a property exceeds its fair value and depreciated based on the remaining useful life. Costs of significant property improvements are capitalized, whereas costs related to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded through a valuation allowance charged through expense, to reduce the carrying value of the property to lower of its cost or fair value, less cost to sell.

The Company records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed asset to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Cash Surrender Value of Life Insurance

The Company has purchased life insurance policies on certain executives. Life insurance policies are initially recorded at cost at the date of purchase. Subsequent to purchase, the policies are periodically adjusted for changes in contract value. The adjustment to contract value increases or decreases the carrying value of the policies and is recorded as an income or expense on the consolidated statements of income.

Income Taxes

The Company accounts for uncertainty in income taxes in accordance with the provision of FASB ASC 740 – *Accounting for Income Taxes*. In accordance with the income tax accounting guidance, the Company's income tax expense consists of a current and a deferred component. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

NOTE 1: Summary of Significant Accounting Policies – continued

Income Taxes – continued

Uncertain tax positions are recognized if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. During the years ended December 31, 2020 and 2019, the Company recognized no interest and penalties. Based on management's analysis, the Company did not have any uncertain tax positions as of December 31, 2020 and 2019. The Company files income tax returns in the U.S. federal jurisdiction and the state of Texas. There are currently no income tax examinations underway for these jurisdictions. The Company's income tax returns are subject to examination by the relevant taxing authorities as follows: U.S. federal income tax returns for tax years 2017 and forward; Texas income and margin tax returns for tax years 2016 and forward.

The State of Texas imposes tax on taxable margin, as defined. The margin tax was insignificant for the years ended December 31, 2020 and 2019. The deferred tax component of this tax is insignificant.

Derivatives

Derivatives are recognized as assets and liabilities on the consolidated statements of financial condition and measured at fair value. Fore exchange-traded contracts, fair value is based on quoted market prices. Fore non-exchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgment or estimation.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished and, for loan participations sold, incoming cash flows on the base loan are allocated to all participants on a pro-rata basis. Control over transferred assets is deemed to be relinquished when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Derivative Loan Commitments

Mortgage loan commitments that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance (FASB ASC 815, *Derivatives and Hedging*). Loan commitments that are derivatives are recognized at fair value on the consolidated statements of financial condition in other assets and other liabilities with changes in their fair values recorded in noninterest income.

NOTE 1: Summary of Significant Accounting Policies – continued

Forward Loan Commitments

The Company carefully evaluates all loan sales agreements to determine whether they meet the definition of a derivative under FASB ASC 815 – *Derivatives and Hedging* as facts and circumstances may differ significantly.

If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Company uses "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Accordingly, forward loan sale commitments are recognized at fair value on the consolidated statements of financial condition in other assets and liabilities with changes in their fair values recorded in other noninterest income.

The Company estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

Treasury Stock

Treasury stock is accounted for on the cost method and consists of 1,344 shares in 2020 and 2,809 shares in 2019.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2020 and 2019 amounted to $147,033 and $114,260, respectively.

Business Combinations, Goodwill, and Other Intangible Assets

The Company follows FASB ASC 805 – *Business Combinations* to account for business combinations under the acquisition method. The guidance addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. The guidance provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized, but rather be tested at least annually for impairment. At December 31, 2020 and 2019, the goodwill recorded on acquisitions amounted to $15,251,182 and is not subject to amortization. The Company conducted a goodwill impairment test for the years ended December 31, 2020 and 2019. There were no reductions of recorded goodwill resulting from the impairment test.

Software Development Costs

The Company capitalizes certain costs incurred to produce proprietary software used to process money transfers. Such costs, including coding, testing, and product quality assurance, are capitalized once technological feasibility has been established. Amortization is computed on a case-by-case basis over the estimated economic life of the software, which is 5 years.

NOTE 1: Summary of Significant Accounting Policies – continued

Preferred Stock

The Company has the authority to issue up to 1,000,000 shares of preferred stock. The preferred stock is available for issuance from time to time to strengthen the Bank's capital ratios, support loan growth, and for general corporate purposes.

In December 2015, the Company issued "Series A Preferred Shares." This series consisted of up to 2,000 preferred shares, had a subscription price of $10,000 per share, and had a par value of $10 per share. Cumulative dividends accrued at a rate of 5% per annum. Dividends were payable quarterly in arrears on each January 15, April 15, July 15, and October 15.

The Company had the option to redeem the preferred shares three years after the date of issuance, but no later than five years after issuance, or December 2020. The preferred stock ranked senior to the common stock with respect to the payments of dividends and distributions and amounts payable upon liquidation, dissolution, and winding up of the Company. The preferred stock generally is non-voting.

Effective February 14, 2020, the Company elected to fully redeem all outstanding preferred shares, including unpaid preferred dividends since the last dividend was issued on January 15, 2020. The redemption resulted in a reduction of the Company's shareholders' equity in the amount of $18,336,083. Of the total reduction, $18,260,000 was for the redemption of 1,826 outstanding shares, plus $76,083 in outstanding accrued dividends payable since the last dividend was issued on January 15, 2020.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale-securities, are reported as a separate component of the shareholders' equity section of the consolidated balance sheets as accumulated other comprehensive income. Such items, along with net income, are components of comprehensive income.

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Revenue Recognition

Interest income and expense is recognized on the accrual method based on the respective outstanding balances. Other revenue is recognized at the time the service is rendered or transactions occur.

Service charges on deposit accounts – The Company earns fees from its deposit customers for transaction-based, account-maintenance, and overdraft services. Transaction-based fees, which include services such as ATMs use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing a period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

NOTE 1: Summary of Significant Accounting Policies – continued

Revenue Recognition – continued

Debit card income – The Company earns interchange fees from debit and credit cardholder transactions conducted through the third party payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

New Accounting Pronouncements Adopted

On March 12, 2020, the Company adopted ASU 2020-04 *Reference Rate Reform* and all subsequent amendments thereto, which eases the potential burden in accounting for reference rate reform. The amendments are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The annual percentage rate of the interest payable on the Company's subordinated debentures and distributions payable on the trust preferred securities is based on 3-Month LIBOR, in addition to select purchased loan participations that are also based on LIBOR. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

NOTE 2: Securities

The amortized cost and fair value of securities, with gross unrealized losses, is as follows:

	December 31, 2020			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency	$ 89,067,568	$ 2,705,731	$ -	$ 91,773,299
Mortgage-backed	61,813,111	1,290,334	-	63,103,445
State and political subdivisions	1,978,114	21,261	-	1,999,375
Total securities available for sale	$ 152,858,793	$ 4,017,326	$ -	$ 156,876,119

	December 31, 2019			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency	$ 112,404,129	$ 1,420,488	$ (13,513)	$ 113,811,104
Mortgage-backed	60,807,568	982,785	(45,266)	61,745,087
State and political subdivisions	6,259,886	11,315	(1,843)	6,269,358
Total securities available for sale	$ 179,471,583	$ 2,414,588	$ (60,622)	$ 181,825,549

NOTE 2: Securities – continued

For the years ended December 31, 2020 and 2019, proceeds from sales of securities available for sale amounted to $69,633,369 and $0, respectively. Gross realized gains amounted to $1,417,288 and $0, respectively. There were no gross realized losses in either year.

At December 31, 2020 and 2019, securities with a carrying value of $55,412,866 and $54,421,927, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2020, follows:

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 58,424,160	$ 60,794,543
Due from one year to five years	32,621,522	32,978,131
Mortgage-backed securities	61,813,111	63,103,445
Total	$ 152,858,793	$ 156,876,119

At December 31, 2020, there were no securities with gross unrealized losses. The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses at December 31, 2019 that were not deemed to be other-than-temporary impairment, aggregated by investment category and length of time that individual securities were in a continuous unrealized loss position for twelve months or more:

	December 31, 2019			
	Less than 12 months		12 months or longer	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency (11)	$ 5,000,350	$ 2,727	$ 13,410,497	$ 10,786
Mortgage-backed (3)	11,338,725	45,266	-	-
State and political subdivisions (2)	574,550	394	1,266,525	1,449
Total	$ 16,913,625	$ 48,387	$ 14,677,022	$ 12,235

Other-than-temporary impairment

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) evaluation by the Company of (a) its intent to sell a debt security prior to recovery and (b) whether it is more-likely-than-not the Company will have to sell the debt security prior to recovery. As of December 31, 2020 and 2019, no investment securities were other-than-temporarily impaired.

NOTE 3: Loans

A summary of the balance of loans is as follows:

	December 31, 2020	December 31, 2019
Real estate	$ 403,370,272	$ 371,239,873
Construction	129,536,799	108,608,250
Energy	128,478,814	131,675,093
Consumer	10,587,221	16,702,723
Commercial	347,788,851	266,505,730
	1,019,761,957	894,731,669
Less: Allowance for loan losses	(22,352,931)	(16,599,365)
Loans, net	$ 997,409,026	$ 878,132,304

The following table sets forth information regarding the activity in the allowance for loan losses for the year ended December 31, 2020:

	Real estate	Construction	Energy	Consumer	Commercial	Total
Allowance for loan losses:						
Beginning balance	$ 4,542,279	$ 1,487,933	$ 1,346,128	$ 269,508	$ 8,953,517	$ 16,599,365
Charge-offs	-	(94,088)	(1,746,977)	(28,086)	(253,574)	(2,122,725)
Recoveries	-	-	-	-	1,667,291	1,667,291
Provision	2,073,320	1,132,056	6,776,013	(61,732)	(3,710,657)	6,209,000
Ending balance	$ 6,615,599	$ 2,525,901	$ 6,375,164	$ 179,690	$ 6,656,577	$ 22,352,931
Ending balance allocated to loans individually evaluated for impairment	$ 53,833	$ -	$ -	$ -	$ 285,547	$ 339,380
Ending balance allocated to loans collectively evaluated for impairment	$ 6,561,766	$ 2,525,901	$ 6,375,164	$ 179,690	$ 6,371,030	$ 22,013,551
Loans receivable:						
Ending balance of loans individually evaluated for impairment	$ 3,184,043	$ -	$ 4,017,331	$ 42,301	$ 4,384,663	$ 11,628,338
Ending balance of loans collectively evaluated for impairment	400,186,229	129,536,799	124,461,483	10,544,920	343,404,188	1,008,133,619
Ending balance	$ 403,370,272	$ 129,536,799	$ 128,478,814	$ 10,587,221	$ 347,788,851	$ 1,019,761,957

NOTE 3: Loans – continued

The following table sets forth information regarding the activity in the allowance for loan losses for the year ended December 31, 2019:

	Real estate	Construction	Energy	Consumer	Commercial	Total
Allowance for loan losses:						
Beginning balance	$ 3,120,553	$ 1,187,487	$ 3,803,938	$ 220,280	$ 6,896,001	$ 15,228,259
Charge-offs	-	-	(312,577)	(8,903)	(2,048,843)	(2,370,323)
Recoveries	-	-	-	4,960	426,469	431,429
Provision	1,421,726	300,446	(2,145,233)	53,171	3,679,890	3,310,000
Ending balance	$ 4,542,279	$ 1,487,933	$ 1,346,128	$ 269,508	$ 8,953,517	$ 16,599,365
Ending balance allocated to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 54,238	$ 54,238
Ending balance allocated to loans collectively evaluated for impairment	$ 4,542,279	$ 1,487,933	$ 1,346,128	$ 269,508	$ 8,899,279	$ 16,545,127
Loans receivable:						
Ending balance of loans individually evaluated for impairment	$ 748,546	$ -	$ 6,271,942	$ 27,931	$ 1,833,525	$ 8,881,944
Ending balance of loans collectively evaluated for impairment	370,491,327	108,608,250	125,403,151	16,674,792	264,672,205	885,849,725
Ending balance	$ 371,239,873	$ 108,608,250	$ 131,675,093	$ 16,702,723	$ 266,505,730	$ 894,731,669

The Company monitors credit quality within its portfolio segments based on primary credit quality indicators. All of the Company's loans are evaluated using pass rated or reservable criticized as the primary credit quality indicator. The term reservable criticized refers to those loans that are internally classified or listed by the Company as special mention, substandard, doubtful, or loss. These assets pose an elevated risk and may have a high probability of default or total loss.

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weakness or deterioration in credit worthiness; however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

NOTE 3: Loans – continued

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on nonaccrual.

Credits rated loss are those that are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practicable or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

Pass rated refers to loans that are not considered criticized. In addition to this primary credit quality indicator, the Company uses other credit quality indicators for certain types of loans.

The following table sets forth information regarding the internal classification of the loan portfolio as of December 31, 2020:

	December 31, 2020					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
1-4 Residential	$ 84,993,184	$ 75,899	$ 839,454	$ -	$ -	$ 85,908,537
Commercial real estate	263,605,350	4,291,056	49,565,329	-	-	317,461,735
Construction	129,536,799	-	-	-	-	129,536,799
Energy	121,844,816	-	6,633,998	-	-	128,478,814
Consumer	10,516,191	-	71,030	-	-	10,587,221
Commercial	328,496,566	3,106,414	16,185,871	-	-	347,788,851
Total	$ 938,992,906	$ 7,473,369	$ 73,295,682	$ -	$ -	$ 1,019,761,957

NOTE 3: Loans – continued

The following table sets forth information regarding the internal classification of the loan portfolio as of December 31, 2019:

	December 31, 2019					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
1-4 Residential	$ 85,104,772	$ -	$ 1,486,227	$ -	$ -	$ 86,590,999
Commercial real estate	278,444,840	1,442,435	4,761,599	-	-	284,648,874
Construction	108,608,250	-	-	-	-	108,608,250
Energy	124,199,989	-	7,475,104	-	-	131,675,093
Consumer	16,674,792	-	27,931	-	-	16,702,723
Commercial	259,918,283	1,471,271	5,116,176	-	-	266,505,730
Total	$ 872,950,926	$ 2,913,706	$ 18,867,037	$ -	$ -	$ 894,731,669

The following table sets forth information regarding the credit risk profile based on payment activity of the loan portfolio:

	December 31, 2020			December 31, 2019		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Real estate:						
1-4 Residential	$ 85,536,695	$ 371,842	$ 85,908,537	$ 85,785,932	$ 805,067	$ 86,590,999
Commercial real estate	313,504,962	3,956,773	317,461,735	284,648,874	-	284,648,874
Construction	129,536,799	-	129,536,799	108,608,250	-	108,608,250
Energy	124,461,483	4,017,331	128,478,814	124,251,311	7,423,782	131,675,093
Consumer	10,544,920	42,301	10,587,221	16,702,723	-	16,702,723
Commercial	345,144,207	2,644,644	347,788,851	266,505,730	-	266,505,730
Total	$ 1,008,729,066	$ 11,032,891	$ 1,019,761,957	$886,502,820	$ 8,228,849	$894,731,669

NOTE 3: Loans – continued

The following tables set forth information regarding the delinquencies within the loan portfolio as of December 31, 2020 and 2019:

	December 31, 2020					
	Loans Past Due and Still Accruing					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Non-accrual Loans	Current Loans	Total Loans
Real estate:						
1-4 Residential	$ 456,914	$ -	$ 456,914	$ 371,842	$ 85,079,781	$ 85,908,537
Commercial real estate	521,377	-	521,377	3,956,773	312,983,585	317,461,735
Construction	363,912	-	363,912	-	129,172,887	129,536,799
Energy	-	-	-	4,017,331	124,461,483	128,478,814
Consumer	52,437	-	52,437	42,301	10,492,483	10,587,221
Commercial	746,600	-	746,600	2,644,644	344,397,607	347,788,851
Total	$ 2,141,240	$ -	$ 2,141,240	$ 11,032,891	$ 1,006,587,826	$ 1,019,761,957

	December 31, 2019					
	Loans Past Due and Still Accruing					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Non-accrual Loans	Current Loans	Total Loans
Real estate:						
1-4 Residential	$ 143,839	$ 224,652	$ 368,491	$ 805,067	$ 85,417,441	$ 86,590,999
Commercial real estate	3,901,375	-	3,901,375	-	280,747,499	284,648,874
Construction	611,250	-	611,250	-	107,997,000	108,608,250
Energy	761,399	-	761,399	7,423,782	123,489,912	131,675,093
Consumer	39,575	-	39,575	-	16,663,148	16,702,723
Commercial	1,369,487	-	1,369,487	-	265,136,243	266,505,730
Total	$ 6,826,925	$ 224,652	$ 7,051,577	$ 8,228,849	$879,451,243	$894,731,669

A loan is considered impaired, in accordance with the impairment accounting guidance, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings (including those accruing interest) when concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection. The Company did not recognize any interest income on a cash basis on impaired loans during the years ended December 31, 2020 and 2019.

NOTE 3: Loans – continued

Troubled Debt Restructurings

As of December 31, 2020 and 2019, the Company has a recorded investment in troubled debt restructurings of $7,083,195 and $9,159,000, respectively. The Company has allocated $63,374 and $3,000 of specific allowance for those loans at December 31, 2020 and 2019, respectively. The Company has no additional commitment to lend to any of these borrowers.

For the year ended December 31, 2020, there were no modifications within the loan portfolio of troubled debt restructurings. The modification of terms for the commercial and consumer loans performed during the year ended December 31, 2019 included extension of the maturity dates in a range from 12 months to 180 months.

The following table sets forth information regarding modifications within the loan portfolio of troubled debt restructurings for the year ended December 31, 2019:

	Number	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring			
Consumer	1	$ 25,353	$ 21,705
Commercial	6	1,856,501	1,832,077
Total	7	$ 1,881,854	$ 1,853,782

There have been no subsequently defaulted troubled debt restructurings.

During fiscal year 2020, the Company worked with borrowers impacted by COVID-19 and provided modifications to include interest only deferral or principal and interest deferral. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. The Company modified over 180 commercial loans during 2020, with outstanding balances of approximately $29,624,000 as of December 31, 2020.

NOTE 3: Loans – continued

The following table sets forth information regarding impaired loans as of December 31, 2020:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Real estate:					
1-4 Residential	$ 371,841	$ 394,227	$ -	$ 560,194	$ 5,533
Commercial real estate	-	-	-	-	-
Energy	4,017,331	5,382,160	-	5,144,636	-
Consumer	42,301	42,301	-	35,116	292
Commercial	1,508,577	1,580,822	-	1,531,320	16,757
With a related allowance:					
Commercial real estate	$ 2,812,202	$ 2,843,833	$ 53,833	$ 1,406,101	$ 153,796
Commercial	2,876,086	2,880,739	285,547	1,577,774	123,105
Total:					
Real estate:					
1-4 Residential	371,841	394,227	-	560,194	5,533
Commercial real estate	2,812,202	2,843,833	53,833	1,406,101	153,796
Energy	4,017,331	5,382,160	-	5,144,636	-
Consumer	42,301	42,301	-	35,116	292
Commercial	4,384,663	4,461,561	285,547	3,109,094	139,862
Total	$ 11,628,338	$ 13,124,082	$ 339,380	$ 10,255,141	$ 299,483

NOTE 3: Loans – continued

The following table sets forth information regarding impaired loans as of December 31, 2019:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Real estate:					
1-4 Residential	$ 748,546	$ 805,067	$ -	$ 693,420	$ -
Energy	6,271,942	7,423,782	-	7,062,677	6,104
Consumer	27,931	27,931	-	22,713	2,921
Commercial	1,679,065	1,679,065	-	1,043,639	116,986
With a related allowance:					
Commercial	154,460	154,460	54,238	77,230	7,802
Total:					
Real estate:					
1-4 Residential	748,546	805,067	-	693,420	-
Energy	6,271,942	7,423,782	-	7,062,677	6,104
Consumer	27,931	27,931	-	22,713	2,921
Commercial	1,833,525	1,833,525	54,238	1,120,869	124,788
Total	$ 8,881,944	$ 10,090,305	$ 54,238	$ 8,899,679	$ 133,813

NOTE 4: Foreclosed Assets

Foreclosed asset activity is as follows:

	December 31, 2020	December 31, 2019
Beginning balance	$ 3,355,892	$ 3,355,892
Loans transferred to real estate owned	585,491	-
Capitalized expenditures	226,944	-
Sales of real estate owned	(3,355,892)	-
Ending balance	$ 812,435	$ 3,355,892

NOTE 4: Foreclosed Assets – continued

Activity in the valuation allowance was as follows:

	December 31, 2020	December 31, 2019
Beginning of year	$ -	$ -
Reductions from sales of real estate owned	(445,092)	-
Direct write-downs	597,227	-
End of year	$ 152,135	$ -

Expenses applicable to foreclosed assets included the following:

	Years Ended December 31, 2020	Years Ended December 31, 2019
Net loss on sale	$ -	$ (1,894)
Writedowns	(597,227)	(175,210)
Operating expenses net of rental income	(83,841)	(15,788)
Expenses related to foreclosed assets, net	$ (681,068)	$ (192,892)

Operating expenses of net rental income are included in noninterest expenses – other expenses on the consolidated statements of income.

NOTE 5: Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment is as follows:

	December 31, 2020	December 31, 2019
Land	$ 3,564,805	$ 3,665,305
Building and improvements	12,799,259	7,040,023
Equipment	6,967,345	6,231,372
Software	1,972,257	2,322,398
Construction in progress	187,469	4,376,100
	25,491,135	23,635,198
Accumulated depreciation	(9,193,643)	(10,865,361)
Total	$ 16,297,492	$ 12,769,837

Depreciation expense for the years ended December 31, 2020 and 2019 amounted to $1,218,881 and $1,051,303, respectively.

NOTE 6: Deposits

A summary of deposits is as follows:

	December 31, 2020	December 31, 2019
Demand	$ 742,789,351	$ 807,801,700
NOW accounts	79,347,406	82,887,453
Savings and money market accounts	349,893,256	331,223,021
Certificates of deposit $250,000 and over	23,274,377	20,363,018
Other certificates of deposit	25,000,939	26,747,206
Total deposits	$ 1,220,305,329	$ 1,269,022,398

As of December 31, 2020, no customer accounted for 10% or more of deposits.

At December 31, 2020, the scheduled maturities of time deposits are as follows:

2021	$ 42,494,434
2022	4,256,567
2023	1,524,315
Total deposits	$ 48,275,316

NOTE 7: Income Taxes

Allocation of income taxes between current and deferred portions is as follows:

	Years Ended December 31, 2020	Years Ended December 31, 2019
Current federal income tax expense	$ 5,145,395	$ 7,094,317
Current state income tax expense	72,000	90,440
Deferred federal income tax (benefit)	(860,284)	(680,955)
Total provision for income tax	$ 4,357,111	$ 6,503,802

NOTE 7: Income Taxes – continued

Income tax expense, as a percentage of pretax earnings, differs from the statutory federal income tax rate at December 31, 2020 and 2019 is as follows:

	2020	2019
Income tax expense (benefit) at the statutory rate	21.0 %	21.0 %
State income taxes	0.3	0.2
Nontaxable earnings	(0.9)	(0.7)
Nondeductible expenses	0.4	0.2
Other	0.1	0.2
Effective tax rate	20.9 %	20.9 %

Income exempt from federal income tax is the primary reason the effective tax rate differs from statutory federal income tax rates. The components of the net deferred tax assets are as follows:

	Years Ended December 31,	
	2020	2019
Deferred tax assets		
Loans receivable	$ 4,799,492	$ 3,803,101
Other	643,302	426,157
	5,442,794	4,229,258
Deferred tax liabilities		
Premises and equipment	$ (581,856)	$ (228,604)
Intangible asset amortization deductible for tax purposes	(1,941,740)	(1,941,740)
Unrealized gain on securities available for sale	(843,638)	(494,333)
	(3,367,234)	(2,664,677)
Net deferred tax asset	$ 2,075,560	$ 1,564,581

NOTE 8: Off-Balance Sheet Activities

The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Company's exposure to credit risk is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

NOTE 8: Off-Balance Sheet Activities – continued

At December 31, 2020 and 2019, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2020	2019
Commitments to extend credit	$ 273,398,909	$ 286,149,156
Standby letters of credit	10,522,214	8,271,589

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

The Company has no other off-balance sheet arrangements or transactions with unconsolidated, special purpose entities that would expose the Company to liability that is not reflected on the face of the consolidated financial statements.

NOTE 9: Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates. Annual activity consisted of the following:

	December 31,	
	2020	2019
Beginning balance	$ 20,742,334	$ 15,999,986
Additions	9,044,273	10,388,864
Repayments	(13,030,558)	(5,646,516)
Ending balance	$ 16,756,049	$ 20,742,334

Deposits from related parties held by the Company at December 31, 2020 and 2019 amounted to $50,263,752 and $26,301,479, respectively.

NOTE 10: Regulatory Matters

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines, and additionally for banks prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors.

The Basel III Capital Rules became effective for the Bank on January 1, 2015, subject to a phase-in for certain provisions. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of common equity tier 1 capital, tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier 1 capital to quarterly average assets (as defined).

The Bank's regulatory capital is comprised of the following: 1) Common equity tier 1 capital – consisting of common stock, related paid-in-capital and retained earnings; 2) Additional tier 1 capital – there are no components of tier 1 capital beyond common equity tier 1 capital; 3) Tier 2 capital – consisting of a permissible portion of the allowance for loan losses; and 4) Total capital – the aggregate of all tier 1 and tier 2 capital. In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income/less in common equity tier 1 capital.

The following table presents actual and required capital ratios as of December 31, 2020, and 2019 for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital rules include the fully phased-in capital conservation buffer. Capital levels required to be considered well capitalized are based on prompt corrective action regulations, as amended to reflect changes under the Basel III Capital Rules.

In April 2020, we began originating loans to qualified small businesses under the PPP Program administered by the SBA. Federal bank regulatory agencies have issued an interim final rule that permits banks to neutralize the regulatory capital effects of participating in the Paycheck Protection Program Lending Facility (the PPP Facility) and clarify that PPP loans have a zero percent risk weight under applicable risk-based capital rules. Specifically, a bank may exclude all PPP loans pledged as collateral to the PPP Facility from its average total consolidated assets for the purposes of calculating is leverage ratio, while PPP loans that are not pledged as collateral to the PPP Facility will be included. The PPP loans of $96,145,325 we originated are included in the calculation of our leverage ratio as of December 31, 2020 as we did not utilize the PPP Facility for funding purposes.

NOTE 10: Regulatory Matters – continued

The Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 are presented in the following table (in thousands):

	Actual		Minimum required for capital adequacy purposes - Basel III fully phased-in		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Total Risk-Based Capital to Risk Weighted Assets	$ 157,113	14.2%	$ 116,586	10.5%	$ 111,034	10.0%
Common Equity Tier 1 Capital (CET1) to Risk Weighted Assets	143,131	12.9%	77,728	7.0%	72,176	6.5%
Tier 1 Capital to Risk Weighted Assets	143,131	12.9%	94,384	8.5%	88,832	8.0%
Tier 1 Capital to Adjusted Total Assets	143,131	10.6%	54,165	4.0%	67,706	5.0%
As of December 31, 2019						
Total Risk-Based Capital to Risk Weighted Assets	$ 158,586	14.8%	$ 112,147	10.5%	$ 106,807	10.0%
Common Equity Tier 1 Capital (CET1) to Risk Weighted Assets	145,191	13.6%	74,765	7.0%	69,424	6.5%
Tier 1 Capital to Risk Weighted Assets	145,191	13.6%	90,786	8.5%	85,445	8.0%
Tier 1 Capital to Adjusted Total Assets	145,191	10.3%	56,131	4.0%	70,164	5.0%

Regulatory authorities can initiate certain mandatory actions if the Bank fails to meet the minimum capital requirements, which could have a direct and material effect on the Company's consolidated financial statements. Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject and that the Bank exceeds the minimum levels necessary to be considered "well capitalized." There are no conditions or events since the notification that management believes have changed the Bank's category.

NOTE 11: Employee Benefit Plan

Profit-Sharing Plan

The Bank has a profit-sharing plan covering substantially all employees. The plan is a qualified salary reduction plan under Section 401(k) of the Internal Revenue Code, which allows deferral of compensation, effective January 1, 1987. The plan became effective February 29, 2000. Under this plan, the Bank's annual contribution to the plan cannot exceed five percent (5%) of eligible compensation, three percent (3%) of which is nondiscretionary and the other two percent (2%) is at the discretion of the Bank's Board of Directors. Bank contributions are made in the form of cash or treasury stock. The Bank contributed $549,848 and $492,313 to the profit-sharing plan in 2020 and 2019, respectively.

Deferred Compensation Plans

The Company has entered into deferred compensation contracts with current key employees. The contracts provide fixed benefits payable in equal annual installments after a 7 year vesting period. The Company purchased life insurance contracts that may be used to fund the payments. The charge to expense is based on the present value computations of anticipated liabilities. For the years ended December 31, 2020 and 2019, the total expense was $933,837 and $996,530, respectively. The Company has recorded a liability for the deferred compensation plan of $2,863,882 and $1,952,839 at December 31, 2020 and 2019, respectively, which are included in accrued expenses and other liabilities in the consolidated statements of financial condition.

NOTE 12: Restrictions on Dividends

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to the Company. Such regulations generally restrict cash dividends for the year 2020 to the extent of the Bank's earnings for 2020 plus $35,183,230 of available earnings from prior years. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

NOTE 13: Commitments and Contingencies

Leases

The Bank entered into a 15-year lease agreement with three 5-year renewal options, dated November 7, 2018, for office space in Midland, Texas. During 2019, the Bank began construction on the new lease space and began paying $38,000 per month in September 2019, which was recorded as prepaid rent. The prepaid rent was applied to future minimum lease payments when construction was complete. The balance of prepaid rent at December 31, 2019 was $152,000 and rental expense for other non-cancelable leases was $192,842 for the year ended December 31, 2019. Construction was completed in March 2020. Rental expense for this lease and other non-cancelable operating leases was $1,251,533 for the year ended December 31, 2020. The future minimum commitment under this and other non-cancelable operating leases as of December 31, 2020 are as follows:

Year Ending December 31:	
2021	$ 1,357,242
2022	1,249,990
2023	1,200,610
2024	1,213,650
2025	1,239,291
Thereafter	12,745,465
	$ 19,006,248

Legal

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will not have a material effect on the Company's consolidated financial statements.

NOTE 14: Fair Value Measurements

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs.

An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transaction involving such asset and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

Authoritative guidance requires the use of valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability.

NOTE 14: Fair Value Measurements – continued

Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar asset or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate, volatilities, prepayment speeds, loss severities, credit risks, and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale – Securities classified as available for sale are reported at fair value utilizing Level 1 and Level 2 inputs. For those securities, the Company obtains fair value measurements from an independent pricing service. The fair value instruments consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things.

Impaired Loans – Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria.

NOTE 14: Fair Value Measurements – continued

Foreclosed Assets – Fair values are valued at the time the loan is foreclosed upon and the asset is transferred from loans. The value is based upon primarily third party appraisals, less costs to sell. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and the client's business. Such discounts are typically significant and result in Level 3 classification of the inputs for determining fair value. Foreclosed assets are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same or similar factors above.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2020, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2020			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Investment securities				
U.S. government and agency	$ -	$ 91,773,299	$ -	$ 91,773,299
Mortgage-backed	-	63,103,445	-	63,103,445
State and political subdivisions	-	1,999,375	-	1,999,375
Total financial assets	$ -	$ 156,876,119	$ -	$ 156,876,119

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2019			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Investment securities				
U.S. government and agency	$ -	$ 113,811,104	$ -	$ 113,811,104
Mortgage-backed	-	61,745,087	-	61,745,087
State and political subdivisions	-	6,269,358	-	6,269,358
Total financial assets	$ -	$ 181,825,549	$ -	$ 181,825,549

Certain nonfinancial assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

NOTE 14: Fair Value Measurements – continued

The following table summarizes financial and nonfinancial assets and liabilities, measured at fair value on a nonrecurring basis as of December 31, 2020 and 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2020			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Impaired loans	$ -	$ -	$ 11,288,958	$ 11,288,958
Nonfinancial assets:				
Foreclosed assets	-	-	660,300	660,300
	$ -	$ -	$ 11,949,258	$ 11,949,258

	December 31, 2019			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Impaired loans	$ -	$ -	$ 8,828,000	$ 8,828,000
Nonfinancial assets:				
Foreclosed assets	-	-	3,355,892	3,355,892
	$ -	$ -	$ 12,183,892	$ 12,183,892

During the years ended December 31, 2020 and 2019, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. At December 31, 2020, impaired loans with a carrying value of $11,628,338 were reduced by specific valuation allowance allocations totaling $339,380 to a reported fair value of $11,288,958. At December 31, 2019, impaired loans with a carrying value of $8,882,000 were reduced by specific valuation allowance allocations totaling $54,000 to a reported fair value of $8,828,000. The fair value of impaired loans is determined based on collateral valuations utilizing Level 3 valuation inputs.

NOTE 14: Fair Value Measurements – continued

Quantitative information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements – The following table represents the Company's Level 3 financial assets and liabilities, the valuation techniques used to measure the fair value of those financial assets and liabilities, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair Value at December 31, 2020	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	$ 11,288,958	Appraisal of collateral (1)	Appraisal adjustment	10-35%
Foreclosed assets	$ 660,300	Appraisal of collateral (1)	Appraisal adjustment	10-35%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable, less associated allowance.

Instrument	Fair Value at December 31, 2019	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	$ 8,828,000	Appraisal of collateral (1)	Appraisal adjustment	10-35%
Foreclosed assets	$ 3,355,892	Appraisal of collateral (1)	Appraisal adjustment	10-35%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable, less associated allowance.

Impaired loans that are unsecured are fully reduced by specific valuation allowances.

NOTE 15: Subordinated Debentures

On September 15, 2005, the Company completed the private placement of $2,810,000 in subordinated debentures to Midland Statutory Trust II (Trust II). Trust II funded the purchase of the subordinated debentures through the sale of trust preferred securities to Preferred Term Securities, Ltd. XIX with a liquidation value of $2,810,000. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is 3-Month LIBOR plus 1.70% (currently 1.92%). Dividends on the preferred securities are cumulative and Trust II may defer the payments as long as no acceleration event of default has occurred and is continuing, by extending the interest payment period on the debentures for up to twenty (20) consecutive quarterly periods. The preferred securities mature in September 2035.

NOTE 15: Subordinated Debentures – continued

On September 21, 2006, the Company completed the private placement of $6,702,000 in subordinated debentures to Midland Statutory Trust III (Trust III). Trust III funded the purchase of the subordinated debentures through the sale of trust preferred securities to Preferred Term Securities, XIX with a liquidation value of $6,702,000. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is 3-Month LIBOR plus 1.70% (currently 1.93%). Dividends on the preferred securities are cumulative and Trust III may defer the payments as long as no acceleration event of default has occurred and is continuing, by extending the interest payment period on the debentures for up to twenty(2) consecutive quarterly periods. The preferred securities mature in December 2036.

Subordinated debt may be included in regulatory Tier 1 capital subject to a limitation that such amounts not exceed 25% of Tier 1 capital. The remainder of subordinated debt is included in Tier 2 capital. There is no limitation for inclusion of subordinated debt in total risk-based capital and, as such, all subordinated debt was included in total risk-based capital. Interest expense on the subordinated debentures was $241,603 and $402,745 for the years ended December 31, 2020 and 2019.

NOTE 16: Lines of Credit

As of December 31, 2020, the Bank has unused commitments from four commercial banks to fund Fed Fund purchases up to $49,000,000. The Bank also has unused commitments from an unaffiliated commercial bank to borrow funds ranging from $5,000,000 to $20,000,000 depending on the completion of certain financial performance metrics, as defined. The Bank had no outstanding balance on the line of credit at December 31, 2020.

NOTE 17: Supplementary Cash Flow Information

	2020	2019
Interest paid	$ 1,472,239	$ 1,655,070
Income tax paid	6,200,000	7,300,000
Assets acquired through foreclosure	585,491	3,355,892

NOTE 18: Derivatives

Derivative Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Company enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will be subsequently be sold in the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock. Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates.

NOTE 18: Derivatives – continued

Derivative Loan Commitments – continued

If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of undesignated mortgage loan commitments was $11,475,214 and $8,037,689 at December 31, 2020 and 2019, respectively.

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, the Company utilizes "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. With a "best efforts" contract, the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (for example, on the same day the lender commits to lend funds to a potential borrower).

The Company expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments. The notional amount of undesignated forward loan sale commitments was $11,475,214 and $8,037,689 at December 31, 2020 and 2019, respectively. The fair value of such commitments was insignificant.

NOTE 19: Subsequent Events

The Company has evaluated all subsequent events through March 8, 2021, the date the consolidated financial statements were available to be issued.

Section 4013 of the CARES Act and Section 541 of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (the Coronavirus Relief Act) passed in January 2021 provided optional, temporary relief from evaluating loans that may have been considered TDRs under U.S. generally accepted accounting principles. This relief applies to loan modifications executed between March 1, 2020 and the earlier of 60 days after the national emergency related to the pandemic is terminated, or January 1, 2022.

Supplementary Information – Consolidation

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES

Consolidating Statement of Financial Condition

December 31, 2020

	Midland Bancshares, Inc.	Community National Bank and Subsidiary
Assets		
Cash and due from banks	$ 140,537	$ 17,395,122
Interest bearing deposits in banks	-	134,711,918
Securities available for sale	-	156,876,119
Investment in subsidiaries	159,613,592	-
Loans held for sale	-	6,512,554
Loans receivable, net of allowance for loan losses	-	997,409,026
Accrued interest receivable	-	4,846,790
Premises and equipment	-	16,297,492
Foreclosed assets, net	-	660,300
Goodwill	-	15,251,182
Cash surrender value of life insurance	-	30,323,966
Restricted investments held at cost	-	2,225,915
Deferred tax asset	-	2,075,560
Other assets	492,035	2,811,766
Total assets	$ 160,246,164	$ 1,387,397,710
Liabilities		
Noninterest bearing	$ -	$ 742,929,888
Interest bearing	-	477,515,978
Total deposits	-	1,220,445,866
Accrued expenses and other liabilities	60,942	7,338,252
Subordinated debentures	9,512,000	-
Total liabilities	9,572,942	1,227,784,118
Commitments and Contingencies (Note 13)		
Shareholders' equity		
Preferred stock	-	-
Common stock	888,495	1,750,000
Capital surplus	26,660,525	68,454,793
Retained earnings	120,196,974	86,235,112
Treasury stock, at cost	(246,459)	-
Accumulated other comprehensive income (loss)	3,173,687	3,173,687
Total shareholders' equity	150,673,222	159,613,592
Total liabilities and shareholders' equity	$ 160,246,164	$ 1,387,397,710

Eliminations	Consolidated
$ (140,537)	$ 17,395,122
-	134,711,918
-	156,876,119
(159,613,592)	-
-	6,512,554
-	997,409,026
-	4,846,790
-	16,297,492
-	660,300
-	15,251,182
-	30,323,966
-	2,225,915
-	2,075,560
-	3,303,801
$ (159,754,129)	$ 1,387,889,745
$ (140,537)	$ 742,789,351
-	477,515,978
(140,537)	1,220,305,329
-	7,399,194
-	9,512,000
(140,537)	1,237,216,523
-	-
(1,750,000)	888,495
(68,454,793)	26,660,525
(86,235,112)	120,196,974
-	(246,459)
(3,173,687)	3,173,687
(159,613,592)	150,673,222
$ (159,754,129)	$ 1,387,889,745

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES

Consolidating Statement of Income

Year Ended December 31, 2020

	Midland Bancshares, Inc.	Community National Bank and Subsidiary
Interest income		
Loans, including fees	$ -	$ 49,748,135
Debt securities		
Taxable	7,290	3,622,940
Tax exempt	-	51,301
Interest bearing deposits in banks	-	1,441,445
Total interest income	7,290	54,863,821
Interest expense		
Deposits	-	1,122,437
Subordinated debentures and other borrowings	248,848	-
Total interest expense	248,848	1,122,437
Net interest income (loss)	(241,558)	53,741,384
Provision for loan losses	-	6,209,000
Net interest (loss) income after provision for loan losses	(241,558)	47,532,384
Noninterest income		
Service charges on deposit accounts	-	689,615
Sweep account income	-	397,744
Real estate mortgage fees	-	2,320,644
Equity in earnings of subsidiaries	16,735,619	-
Debit card income	-	1,366,505
Gain on sale of loans	-	382,500
Gain on sale of securities	-	1,417,288
Net appreciation on cash surrender value of life insurance	-	661,887
Other income	-	624,672
Total noninterest income	16,735,619	7,860,855
Noninterest expense		
Salaries and employee benefits	-	21,009,027
Occupancy and equipment expense	-	5,007,753
IT and data processing	-	1,559,855
Loan expense	-	368,486
FDIC assessments	-	370,007
Director compensation	-	1,088,000
Loss on sale of and writedown on foreclosed assets	-	597,227
Other expense	38,866	4,241,265
Total noninterest expense	38,866	34,241,620
Income before income taxes	16,455,195	21,151,619
Income tax (benefit) expense	(58,889)	4,416,000
Net income	$ 16,514,084	$ 16,735,619

Eliminations	Consolidated
$ -	$ 49,748,135
-	3,630,230
-	51,301
-	1,441,445
-	54,871,111
-	1,122,437
-	248,848
-	1,371,285
-	53,499,826
-	6,209,000
-	47,290,826
-	689,615
-	397,744
-	2,320,644
(16,735,619)	-
-	1,366,505
-	382,500
-	1,417,288
-	661,887
-	624,672
(16,735,619)	7,860,855
-	21,009,027
-	5,007,753
-	1,559,855
-	368,486
-	370,007
-	1,088,000
-	597,227
-	4,280,131
-	34,280,486
(16,735,619)	20,871,195
-	4,357,111
$ (16,735,619)	$ 16,514,084

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES
Consolidating Statement of Cash Flows
Year Ended December 31, 2020

	Midland Bancshares, Inc.	Community National Bank and Subsidiary
Cash flows from operating activities		
Net income	$ 16,514,084	$ 16,735,619
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	-	6,209,000
Net amortization of securities	-	784,922
Depreciation	-	1,218,881
Net realized gain on sales of available for sales securities	-	(1,417,288)
Net realized gain on sale of loans	-	(382,500)
Appreciation in cash surrender value of life insurance	-	(661,887)
Loss on sale of and writedown on foreclosed assets	-	597,227
Gain on sale of premises and equipment	-	(23,542)
Deferred income tax	-	(860,284)
Undistributed earnings of subsidiaries	4,522,726	-
Net change in:		
Loans held for sale	-	(4,027,895)
Accrued interest receivable	-	(618,264)
Other assets	(58,888)	(434,373)
Accrued expenses and other liabilities	50,208	2,613,375
Net cash provided by operating activities	21,028,130	19,732,991
Cash flows from investing activities		
Net change in interest bearing deposits in banks	-	141,993,072
Capital contribution to subsidiary	(750,000)	-
Activity in available for sale securities		
Sales	-	69,633,369
Maturities, prepayments and calls	-	168,063,198
Purchases	-	(210,451,412)
Net change in restricted investments held at cost	-	(22,500)
Proceeds from sale of foreclosed assets	-	2,910,800
Proceeds from sale of premises and equipment	-	43,388
Loan originations and principal collections, net	-	(125,688,713)
Additions to premises and equipment	-	(5,495,940)
Improvements to foreclosed assets	-	(226,944)
Net cash provided by (used in) investing activities	(750,000)	40,758,318
Cash flows from financing activities		
Proceeds from line of credit advances	750,000	-
Repayments on line of credit advances	(750,000)	-
Redemption of preferred stock	(18,260,000)	-
Proceeds from sale of treasury stock	322,300	-
Capital contributions from holding company	-	750,000
Net change in deposits	-	(48,667,670)
Dividends paid	(2,291,031)	(21,258,345)
Net cash used in financing activities	(20,228,731)	(69,176,015)
Net change in cash and cash equivalents	49,399	(8,684,706)
Cash and cash equivalents at beginning of year	91,138	26,079,828
Cash and cash equivalents at end of year	$ 140,537	$ 17,395,122

Eliminations	Consolidated
$ (16,735,619)	$ 16,514,084
-	6,209,000
-	784,922
-	1,218,881
-	(1,417,288)
-	(382,500)
-	(661,887)
-	597,227
-	(23,542)
-	(860,284)
(4,522,726)	-
-	(4,027,895)
-	(618,264)
-	(493,261)
-	2,663,583
(21,258,345)	19,502,776
-	141,993,072
750,000	-
-	69,633,369
-	168,063,198
-	(210,451,412)
-	(22,500)
-	2,910,800
-	43,388
-	(125,688,713)
-	(5,495,940)
-	(226,944)
750,000	40,758,318
-	750,000
-	(750,000)
-	(18,260,000)
-	322,300
(750,000)	-
(49,399)	(48,717,069)
21,258,345	(2,291,031)
20,458,946	(68,945,800)
(49,399)	(8,684,706)
(91,138)	26,079,828
$ (140,537)	$ 17,395,122

Supplementary Information – Midland Bancshares, Inc. (Parent Company)

MIDLAND BANCSHARES, INC.
(PARENT COMPANY)
Statements of Financial Condition
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and due from banks	$ 140,537	$ 91,138
Investment in subsidiaries	159,613,592	162,072,264
Investment in Midland Statutory Trust II	85,000	85,000
Investment in Midland Statutory Trust III	202,000	202,000
Other assets	205,035	146,147
Total assets	$ 160,246,164	$ 162,596,549
Liabilities		
Accrued expenses and other liabilities	$ 60,942	$ 10,734
Subordinated debentures	9,512,000	9,512,000
Total liabilities	9,572,942	9,522,734
Shareholders' equity		
Preferred stock	-	18,260
Common stock	888,495	888,495
Capital surplus	26,660,525	44,635,196
Retained earnings	120,196,974	105,973,921
Treasury stock, at cost	(246,459)	(301,690)
Accumulated other comprehensive income	3,173,687	1,859,633
Total shareholders' equity	150,673,222	153,073,815
Total liabilities and shareholders' equity	$ 160,246,164	$ 162,596,549

MIDLAND BANCSHARES, INC.
(PARENT COMPANY)
Statements of Income
Years Ended December 31, 2020 and 2019

	2020	2019
Income		
Interest income	$ 7,290	$ 12,152
Total income	7,290	12,152
Expense		
Interest on subordinated debentures	241,603	402,745
Interest on other borrowings	7,245	-
Other expense	38,866	26,731
Total expense	287,714	429,476
Loss before income taxes and equity in earnings of subsidiaries	(280,424)	(417,324)
Income tax benefit	58,889	87,638
Loss before equity in earnings of subsidiaries	(221,535)	(329,686)
Equity in earnings of subsidiaries		
Dividend income	21,258,345	3,925,000
Undistributed earnings of subsidiaries	(4,522,726)	21,089,556
Total equity in earnings of subsidiaries	16,735,619	25,014,556
Net income	$ 16,514,084	$ 24,684,870

MIDLAND BANCSHARES, INC.
(PARENT COMPANY)
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net income	$ 16,514,084	$ 24,684,870
Adjustments to reconcile net income to		
net cash provided by operating activities		
Undistributed earnings of subsidiaries	4,522,726	(21,089,556)
Net change in:		
Other assets	(58,888)	(33,326)
Accrued expenses and other liabilities	50,208	(54,310)
Net cash provided by operating activities	21,028,130	3,507,678
Cash flows from investing activities		
Capital contribution to subsidiary	(750,000)	-
Net cash used in investing activities	(750,000)	-
Cash flows from financing activities		
Proceeds from line of credit advances	750,000	-
Repayments on line of credit advances	(750,000)	-
Purchase of treasury stock	-	(236,280)
Redemption of preferred stock	(18,260,000)	-
Proceeds from sale of treasury stock	322,300	287,980
Dividends paid	(2,291,031)	(3,569,589)
Net cash used in financing activities	(20,228,731)	(3,517,889)
Net change in cash and cash equivalents	49,399	(10,211)
Cash and cash equivalents at beginning of year	91,138	101,349
Cash and cash equivalents at end of year	$ 140,537	$ 91,138

Supplementary Information – Community National Bank and Subsidiary

COMMUNITY NATIONAL BANK AND SUBSIDIARY

Statements of Financial Condition

Years Ended December 31, 2020 and 2019

	2020	2019
Assets		
Cash and due from banks	$ 17,395,122	$ 26,079,828
Interest bearing deposits in banks	134,711,918	276,704,990
Securities available for sale	156,876,119	181,825,549
Loans held for sale	6,512,554	2,484,659
Loans receivable, net of allowance for loan losses	997,409,026	878,132,304
Accrued interest receivable	4,846,790	4,228,526
Premises and equipment	16,297,492	12,769,837
Foreclosed assets, net	660,300	3,355,892
Goodwill	15,251,182	15,251,182
Cash surrender value of life insurance	30,323,966	29,662,079
Restricted investments held at cost	2,225,915	2,203,415
Deferred tax asset	2,075,560	1,564,581
Other assets	2,811,766	1,647,835
Total assets	$ 1,387,397,710	$ 1,435,910,677
Liabilities		
Noninterest bearing	$ 742,929,888	$ 807,892,838
Interest bearing	477,515,978	461,220,698
Total deposits	1,220,445,866	1,269,113,536
Accrued expenses and other liabilities	7,338,252	4,724,877
Total liabilities	1,227,784,118	1,273,838,413
Commitments and Contingencies (Note 13)		
Shareholders' equity		
Common stock	1,750,000	1,750,000
Capital surplus	68,454,793	67,704,793
Retained earnings	86,235,112	90,757,838
Accumulated other comprehensive income	3,173,687	1,859,633
Total shareholders' equity	159,613,592	162,072,264
Total liabilities and shareholders' equity	$ 1,387,397,710	$ 1,435,910,677

COMMUNITY NATIONAL BANK AND SUBSIDIARY

Statements of Income

Years Ended December 31, 2020 and 2019

	2020	2019
Interest income		
Loans, including fees	$ 49,748,135	$ 48,283,205
Debt securities		
Taxable	3,622,940	4,002,329
Tax exempt	51,301	99,659
Interest bearing deposits in banks	1,441,445	6,925,373
Total interest income	54,863,821	59,310,566
Interest expense		
Deposits	1,122,437	1,363,772
Total interest expense	1,122,437	1,363,772
Net interest income	53,741,384	57,946,794
Provision for loan losses	6,209,000	3,310,000
Net interest income after provision for loan losses	47,532,384	54,636,794
Noninterest income		
Service charges on deposit accounts	689,615	777,777
Sweep account income	397,744	2,552,242
Real estate mortgage fees	2,320,644	1,590,253
Debit card income	1,366,505	1,216,504
Gain on sale of loans	382,500	-
Gain on sale of securities	1,417,288	-
Net appreciation on cash surrender value of life insurance	661,887	627,257
Other income	624,672	750,729
Total noninterest income	7,860,855	7,514,762
Noninterest expense		
Salaries and employee benefits	21,009,027	19,586,599
Occupancy and equipment expense	5,007,753	3,675,235
IT and data processing	1,559,855	1,641,533
Loan expense	368,486	308,018
FDIC assessments	370,007	446,820
Director compensation	1,088,000	752,750
Loss on sale of and writedown on foreclosed assets	597,227	177,104
Other expense	4,241,265	3,957,501
Total noninterest expense	34,241,620	30,545,560
Income before income taxes	21,151,619	31,605,996
Income tax expense	4,416,000	6,591,440
Net income	$ 16,735,619	$ 25,014,556

COMMUNITY NATIONAL BANK AND SUBSIDIARY
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net income	$ 16,735,619	$ 25,014,556
Adjustments to reconcile net income to		
net cash provided by operating activities		
Provision for loan losses	6,209,000	3,310,000
Net amortization of securities	784,922	371,374
Depreciation	1,218,881	1,051,303
Net realized gain on sales of available for		
sales securities	(1,417,288)	-
Net realized gain on sale of loans	(382,500)	-
Appreciation in cash surrender value of life insurance	(661,887)	(627,257)
Loss on sale of and writedown on foreclosed assets	597,227	177,104
Gain on sale of premises and equipment	(23,542)	-
Deferred income tax	(860,284)	(680,955)
Net change in:		
Loans held for sale	(4,027,895)	(489,258)
Accrued interest receivable	(618,264)	(91,221)
Other assets	(434,373)	(401,309)
Accrued expenses and other liabilities	2,613,375	1,122,798
Net cash provided by operating activities	19,732,991	28,757,135
Cash flows from investing activities		
Net change in interest bearing deposits in banks	141,993,072	12,196,623
Activity in available for sale securities		
Sales	69,633,369	-
Maturities, prepayments and calls	168,063,198	172,751,996
Purchases	(210,451,412)	(189,805,700)
Purchase of life insurance policies	-	(1,752,132)
Net change in restricted investments held at cost	(22,500)	-
Proceeds from sale of foreclosed assets	2,910,800	165,820
Proceeds from sale of premises and equipment	43,388	-
Loan originations and principal collections, net	(125,688,713)	(78,877,360)
Additions to premises and equipment	(5,495,940)	(4,560,397)
Improvements to foreclosed assets	(226,944)	-
Net cash provided by (used in) investing activities	40,758,318	(89,881,150)

COMMUNITY NATIONAL BANK AND SUBSIDIARY

Statements of Cash Flows – continued

Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from financing activities		
Capital contribution from holding company	750,000	-
Net change in deposits	(48,667,670)	58,924,307
Dividends paid	(21,258,345)	(3,925,000)
Net cash provided by (used in) financing activities	(69,176,015)	54,999,307
Net change in cash and cash equivalents	(8,684,706)	(6,124,708)
Cash and cash equivalents at beginning of year	26,079,828	32,204,536
Cash and cash equivalents at end of year	$ 17,395,122	$ 26,079,828